

**ST. TAMMANY PARISH
WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Annual Financial Statements

December 31, 2011 and 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JUN 06 2012**

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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Independent Auditor's Report

To the Board of Commissioners
St. Tammany Parish Water District No. 2
Covington, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Tammany Parish Water District No. 2 (the District), a component unit of the St. Tammany Parish Government, as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the major fund of the District as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting firms serving clients. The McGladrey Alliance member firms maintain their own independence and are responsible for their own client engagements. McGladrey Alliance and its member firms are not affiliated with McGladrey & Pullen LLP.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, beginning on page 4, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script, appearing to read "LaForte".

A Professional Accounting Corporation

April 13, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Management's Discussion and Analysis

The Management's Discussion and Analysis of St. Tammany Parish Water District No. 2's (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended December 31, 2011. This document focuses on the current year's activities, resulting changes and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

Financial Highlights

The District's assets exceeded its liabilities at the close of fiscal year 2011 by \$897,065, which represents a 24% increase from last fiscal year. Of this amount, \$528,823 (unrestricted net assets) may be used to meet the District's ongoing obligation to its users.

The District's operating revenue increased by \$62,492 (or 9%) due to an increase in water revenue caused by an increase in customers. Operating expenses decreased by \$93,145 (or 13%), mainly due to a decrease in repair and maintenance and operating supplies. As a result, the District had a net operating income of \$115,242 for 2011 as opposed to a net operating loss of \$40,395 for 2010.

Overview of the Financial Statements

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Assets, the Statements of Revenues and Expenses, the Statements of Changes in Net Assets, and the Statements of Cash Flows.

The Statements of Net Assets present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues and Expenses and the Statements of Changes in Net Assets present information showing how the District's net assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the District's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income (loss) to net cash provided by operating activities (indirect method) as required by GASB 34.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Management's Discussion and Analysis

Financial Analysis of the District

	2011	2010
Current and Restricted Assets	\$ 863,690	\$ 664,847
Capital Assets, Net	1,154,396	1,244,362
Other Assets	17,920	19,028
Total Assets	2,036,006	1,928,237
Current and Other Liabilities	170,941	176,813
Long-Term Debt Outstanding	968,000	1,028,000
Total Liabilities	1,138,941	1,204,813
Net Assets		
Invested in Capital Assets, Net of Related Debt	224,385	298,613
Restricted	143,857	148,977
Unrestricted	528,823	275,834
Total Net Assets	\$ 897,065	\$ 723,424

Restricted net assets represent those assets that are not available for spending as a result of bond agreements. Conversely, unrestricted net assets are those that do not have any limitations for which those amounts may be used.

The District's change in net assets increased by \$173,641, from December 31, 2010 to December 31, 2011.

	2011	2010
Operating Revenue	\$ 745,692	\$ 683,200
Operating Expenses	630,450	723,595
Net Operating Income (Loss)	115,242	(40,395)
Non-Operating Revenue, Net	58,399	53,722
Change in Net Assets	\$ 173,641	\$ 13,327

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2011, the District had \$1,154,396, net of accumulated depreciation, invested in a broad range of capital assets, including land, rights of way, plant and distribution system, and furniture and equipment (See table below) This amount represents a net decrease (including additions and deductions) of \$89,966 or 7% under last year This decrease was due to depreciation and deductions in excess of capital asset additions

	2011	2010
Land	\$ 10,561	\$ 10,561
Plant and Equipment	2,346,492	2,428,922
Less Accumulated Depreciation	(1,202,657)	(1,195,121)
Total Capital Assets	\$ 1,154,396	\$ 1,244,362

Debt

The District had \$1,028,000 in bonds outstanding at year-end, compared to \$1,087,000 last year A summary of this debt is shown in the table below

	2011	2010
Revenue Bonds	\$ 253,000	\$ 282,000
Public Improvement Bonds	775,000	805,000
Total Debt	\$ 1,028,000	\$ 1,087,000

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives If you have questions about this report or need additional financial information, contact A J Cigali, General Manager, 19432 Hwy 36, Suite A, Covington, Louisiana 70433

BASIC FINANCIAL STATEMENTS

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 462,961	\$ 276,623
Utility Customers Receivable	65,435	70,695
Accrued Interest Receivable	557	557
Accounts Receivable - Other	3,436	3,533
Inventory	29,405	15,205
Prepaid Expenses	3,641	966
Total Current Assets	565,435	367,579
Restricted Assets		
Cash and Cash Equivalents	298,255	297,268
Total Restricted Assets	298,255	297,268
Capital Assets		
Plant and Equipment at Cost, Net	1,143,835	1,233,801
Land	10,561	10,561
Total Capital Assets	1,154,396	1,244,362
Other Assets		
Bond Issuance Cost, Net	17,720	18,828
Utilities Deposit	200	200
Total Other Assets	17,920	19,028
Total Assets	2,036,006	1,928,237

The accompanying notes are an integral part of these financial statements

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Net Assets (Continued)
December 31, 2011 and 2010

	2011	2010
Liabilities		
Current Liabilities (Payable from		
Unrestricted Assets)		
Accounts Payable	3,496	11,164
Accrued Expenses	3,644	3,900
Compensated Absences	9,403	13,458
	<hr/>	<hr/>
Total Current Liabilities (Payable from		
Unrestricted Assets)	16,543	28,522
	<hr/>	<hr/>
Current Liabilities (Payable from		
Restricted Assets)		
Accrued Interest on Bonds	17,132	17,635
Meter Deposits	77,266	71,656
Current Maturities of Bonds Payable	60,000	59,000
	<hr/>	<hr/>
Total Current Liabilities (Payable from		
Restricted Assets)	154,398	148,291
	<hr/>	<hr/>
Long-Term Debt, Net of Current Maturities		
Revenue Bond Payable	223,000	253,000
Public Improvement Bond Payable	745,000	775,000
	<hr/>	<hr/>
Total Long-Term Debt	968,000	1,028,000
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Total Liabilities	1,138,941	1,204,813
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Net Assets		
Invested in Capital Assets, Net of Related Debt	224,385	298,613
Restricted	143,857	148,977
Unrestricted	528,823	275,834
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Total Net Assets	\$ 897,065	\$ 723,424
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The accompanying notes are an integral part of these financial statements

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Revenues and Expenses
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue		
Water Revenue	\$ 675,853	\$ 615,985
Tap and Connect Fees	65,197	57,653
Other Revenue	4,642	9,562
Total Operating Revenue	745,692	683,200
Operating Expenses		
Salaries	210,791	234,788
Depreciation	96,666	97,958
Employee Benefits	56,536	51,524
Insurance	38,452	32,309
Utilities and Telephone	30,482	25,276
System Upgrades	30,209	12,712
Repairs and Maintenance	25,396	89,936
Payroll Taxes	23,482	19,067
Postage and Office Supplies	22,417	27,543
Operating Supplies	22,075	48,207
Legal and Professional	17,357	27,486
Truck Expenses	14,865	11,519
Rent	12,571	11,592
Director Fees	9,600	8,610
Other	8,901	9,740
Parish Assessment Expense	6,320	6,157
Uniforms	3,272	2,745
Travel, Conferences and Conventions	1,058	6,426
Total Operating Expenses	630,450	723,595
Net Operating Income (Loss)	115,242	(40,395)
Non-Operating Revenue (Expense)		
Ad Valorem Revenue	100,721	95,020
Impact Fees	9,200	14,600
Gain on Sale of Capital Assets	1,500	-
Interest Income	871	742
Interest Expense	(53,893)	(56,640)
Total Non-Operating Revenue, Net	58,399	53,722
Change in Net Assets	\$ 173,641	\$ 13,327

The accompanying notes are an integral part of these financial statements

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Net Assets, Beginning of Year	\$ 723,424	\$ 710,097
Change in Net Assets	173,641	13,327
Net Assets, End of Year	\$ 897,065	\$ 723,424

The accompanying notes are an integral part of these financial statements

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts from Customers	\$ 751,049	\$ 671,261
Payments to Suppliers	(324,054)	(357,586)
Payments to Employees and Payroll Taxing Agencies	(238,584)	(264,473)
Net Cash Provided by Operating Activities	188,411	49,202
Cash Flows from Non-Capital Financing Activities		
Net Receipts from Meter Deposits	5,610	3,181
Net Cash Provided by Non-Capital Financing Activities	5,610	3,181
Cash Flows from Capital Financing Activities		
Principal Paid on Bonds	(59,000)	(82,000)
Interest Paid on Bonds	(53,288)	(56,799)
Proceeds from Ad Valorem Taxes	100,721	95,020
Proceeds from Impact Fees	9,200	14,600
Purchase of Capital Assets	(6,700)	(50,200)
Proceeds from Sale of Capital Assets	1,500	-
Net Cash Used in Capital Financing Activities	(7,567)	(79,379)
Cash Flows from Investing Activities		
Interest Received on Investments	871	742
Net Cash Provided by Investing Activities	871	742
Net Increase (Decrease) in Cash and Cash Equivalents	187,325	(26,254)
Cash and Cash Equivalents, Beginning of Year	573,891	600,145
Cash and Cash Equivalents, End of Year	\$ 761,216	\$ 573,891

The accompanying notes are an integral part of these financial statements

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Income (Loss) to		
Net Cash Provided by Operating Activities		
Net Operating Income (Loss)	\$ 115,242	\$ (40,395)
Adjustments to Reconcile Net Operating Income (Loss)		
to Net Cash Provided by Operating Activities		
Depreciation	96,666	97,958
Decrease (Increase) in Utility Customers Receivable	5,260	(11,939)
Decrease (Increase) in Accounts Receivable - Other	97	(328)
(Increase) Decrease in Inventory	(14,200)	873
Increase in Prepaid Expenses	(2,675)	-
(Decrease) Increase in Accounts Payable	(7,668)	7,020
(Decrease) Increase in Accrued Expenses	(256)	2,041
Decrease in Compensated Absences	(4,055)	(6,028)
Net Cash Provided by Operating Activities	\$ 188,411	\$ 49,202

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of St. Tammany Parish Water District No. 2 (the District) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of significant accounting policies.

Reporting Entity

The reporting entity for St. Tammany Parish (the Parish) consists of the St. Tammany Parish Council (the Council), which, as governing authority of the Parish, has oversight responsibility over other governmental units (component units) within the Parish. In accordance with Governmental Accounting Standards Board (GASB) Codification Section 2100, the District is considered a component unit of the Parish reporting entity because (1) commissioners of the District are appointed by the Council and (2) the District provides water service to residents within the Parish. While the District is an integral part of the Parish reporting entity and should be included within the financial statements of that reporting entity, GASB Codification Section 2600 provides that a component unit may also issue financial statements separate from those of the reporting entity. Accordingly, the accompanying financial statements present information only on the financial operations of the District and do not present information on the Council, the general government services provided by the Council, or on other component units that comprise the St. Tammany Parish reporting entity.

Fund Accounting

The accounts of the District are organized on the basis of proprietary fund accounting used by governmental entities. The proprietary fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements passed on or before November 30, 1989, in accounting and reporting for its proprietary fund operations unless those pronouncements conflict with or contradict GASB pronouncements. The District has not elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless they are adopted by GASB.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The District has adopted the provisions of GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement 34 established standards for external reporting for all state and local governmental entities, which include a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- a *Invested in capital assets, net of related debt* - consist of capital assets including restricted assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the unspent related debt proceeds at the year end. The portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- b *Restricted net assets* - consist of net assets with constraints placed on their use either by external groups or law.
- c *Unrestricted net assets* - consist of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Cash Equivalents and Investments

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state of the union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

The District defines cash and cash equivalents to include cash on hand, demand deposits, and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Utility Customer Receivables

Utility customer receivables on the accompanying statements of net assets are considered to be fully collectible at December 31, 2011 and 2010. Uncollectible amounts are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of an account.

Capital Assets

All capital assets of the proprietary fund are recorded at historical costs. Depreciation of all exhaustible capital assets is charged as an expense against operations. Pre-construction costs associated with the development of the water system, which include engineering, legal, and interest costs, are capitalized and will be amortized over their estimated useful lives using the straight-line method. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The following estimated useful lives and methods are used to compute depreciation:

Building	10 - 15 Years	Straight-Line
Plant and Distribution System	40 Years	Straight-Line
Furniture, Fixtures and Equipment	5 - 12 Years	Straight-Line
Software	5 - 10 Years	Straight-Line
Transportation Equipment	5 Years	Straight-Line

Depreciation and amortization expenses amounted to \$96,666 and \$97,958, for the years ended December 31, 2011 and 2010, respectively.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method.

Compensated Absences

Employees of the District earn annual vacation leave based on the following:

Years of Service	Annual Earned
1 Year	1 Week
2 Years or more	2 Weeks

Upon termination of service, employees are paid for unused accrued annual vacation leave. Vacation time is not accumulated from year to year. Sick leave is earned at the rate of 6 days per year. Before October 2009, employees were allowed to accumulate sick leave up to 60 days. The current policy is that vacation time is not allowed to accumulate from year to year, however, all accumulated sick leave prior to October 2009 can continue to be saved.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

In accordance with the above, the District has accrued the following for sick leave that has been earned but not taken as of December 31st

	2011	2010
Sick Leave	<u>\$ 9,403</u>	<u>\$ 13,458</u>

Federal Income Taxes

The District is not subject to federal income taxes in accordance with the Internal Revenue Code (IRC) Section 115 regarding income of states, municipalities and political subdivisions

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain accounts relating to the prior year have been restated to conform to the current year's presentation. These reclassifications have no effect on the change in net assets.

Note 2. Cash and Cash Equivalents

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

At December 31, 2011, the District had \$534,356 in non-interest bearing deposits. These deposits are fully secured from risk by federal deposit insurance. At December 31, 2011, the District had \$237,714 in interest-bearing deposits. These deposits are secured from risk by federal deposit insurance.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

At December 31, 2011 and 2010, cash and cash equivalents for both current and restricted assets consisted of the following

	2011	2010
Unrestricted	\$ 462,961	\$ 276,623
Restricted	298,255	297,268
Cash on Hand and in Bank	\$ 761,216	\$ 573,891

Note 3. Restricted Assets

Resolutions authorizing the issuance of a Waterworks Revenue Bond dated January 7, 1999, for \$500,000, provided for certain restrictions of assets of the District. These requirements have been met as of December 31, 2011 and 2010.

Restricted cash and investments follow:

December 31, 2011	Cash and Cash Equivalents
Revenue Bonds	\$ 119,206
Public Improvement Bonds	101,783
Meter Deposits	77,266
Total Restricted	\$ 298,255

December 31, 2010	Cash and Cash Equivalents
Revenue Bonds	\$ 158,281
Public Improvement Bonds	67,331
Meter Deposits	71,656
Total Restricted	\$ 297,268

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 4. Ad Valorem Taxes

The District is authorized to levy a special ad valorem tax of 6.00 mills on all property subject to taxation to cover debt service requirements. The proceeds of this ad valorem tax are for the purpose of paying the principal and interest of the outstanding public improvement bond. The following is a roll-forward of ad valorem funds for the year ended December 31, 2011.

Beginning Cash and Investments	\$ 67,331
Plus Ad Valorem Receipts	<u>100,721</u>
Subtotal	168,052
Less Interest Payments on Bond	(36,269)
Principal Payments on Bond	<u>(30,000)</u>
Ending Cash and Investments	<u>\$ 101,783</u>

Ad valorem taxes attach as an enforceable lien on property as of January 1st of each year. Taxes were levied by the District on December 1, 2011. Billed taxes were delinquent on January 1, 2012. Revenues from ad valorem taxes are budgeted for the year received, due to the Board of Commissioners' intentions. The St. Tammany Parish Tax Collector bills and collects the District's ad valorem taxes using the assessed value determined by the Tax Assessor of St. Tammany Parish, Louisiana.

Note 5. Long-Term Debt

The following is a summary of bond transactions of the District for the years ended December 31, 2011 and 2010.

	2011	2010
Revenue Bond		
Bond Payable at January 1 st	\$ 282,000	\$ 309,000
Bonds Issued	-	-
Bonds Retired	<u>(29,000)</u>	<u>(27,000)</u>
Bond Payable at December 31st	<u>\$ 253,000</u>	<u>\$ 282,000</u>
Public Improvement Bond		
Bond Payable at January 1 st	\$ 805,000	\$ 860,000
Bonds Issued	-	-
Bonds Retired	<u>(30,000)</u>	<u>(55,000)</u>
Bond Payable at December 31st	<u>\$ 775,000</u>	<u>\$ 805,000</u>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 5. Long-Term Debt (Continued)

The following is a description of the bonds of the District for the years ended December 31, 2011 and 2010

	2011	2010
Revenue Bond		
\$500,000 Water Revenue Bonds dated January 7, 1999, balance due in annual principal installments of \$11,000 - \$43,000, plus interest payments through September 1, 2018, with interest at rates of 4 10% to 5 90%, collateralized by water revenues	<u>\$ 253,000</u>	<u>\$ 282,000</u>
Public Improvement Bond		
\$815,000 General Obligation Bonds dated March 1, 2009, due in annual principal installments of \$5,000 - \$65,000, plus semi-annual payments through March 1, 2028, with interest at 4 0% to 7 0%, collateralized by ad valorem taxes	<u>\$ 775,000</u>	<u>\$ 805,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 2011, including interest payments, are as follows

Year Ending December 31 st	Revenue Bond			Public Improvement Bond		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 30,000	\$ 14,227	\$ 44,227	\$ 30,000	\$ 34,514	\$ 64,514
2013	32,000	12,637	44,637	30,000	32,853	62,853
2014	34,000	10,909	44,909	35,000	31,149	66,149
2015	36,000	9,039	45,039	35,000	29,378	64,378
2016	38,000	7,023	45,023	35,000	27,803	62,803
2017 to 2021	83,000	7,394	90,394	210,000	114,810	324,810
2022 to 2026	-	-	-	270,000	62,856	332,856
2027 to 2028	-	-	-	130,000	6,110	136,110
Total	<u>\$ 253,000</u>	<u>\$ 61,229</u>	<u>\$ 314,229</u>	<u>\$ 775,000</u>	<u>\$ 339,473</u>	<u>\$ 1,114,473</u>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 6. Capital Assets

Capital asset activities for the years ended December 31, 2011 and 2010, were as follows

December 31, 2011	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Capital Assets Being Depreciated				
Building	20,060	-	-	20,060
Machinery and Equipment	1,721,082	6,700	(31,939)	1,695,843
Water Meters	547,923	-	-	547,923
Office Equipment	19,772	-	(14,983)	4,789
Transportation Equipment	107,202	-	(37,805)	69,397
Software	12,883	-	(4,403)	8,480
Total Capital Assets Being Depreciated	2,428,922	6,700	(89,130)	2,346,492
Less Accumulated Depreciation for				
Building	(20,060)	-	-	(20,060)
Machinery and Equipment	(953,457)	(43,640)	31,939	(965,158)
Water Meters	(101,161)	(44,663)	-	(145,824)
Office Equipment	(19,772)	-	14,983	(4,789)
Transportation Equipment	(92,447)	(6,713)	37,805	(61,355)
Software	(8,224)	(1,650)	4,403	(5,471)
Total Accumulated Depreciation	(1,195,121)	(96,666)	89,130	(1,202,657)
Total Capital Assets Being Depreciated, Net	1,233,801	(89,966)	-	1,143,835
Capital Assets, Net	\$ 1,244,362	\$ (89,966)	\$ -	\$ 1,154,396
December 31, 2010	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Capital Assets Being Depreciated				
Building	20,060	-	-	20,060
Machinery and Equipment	1,670,880	50,202	-	1,721,082
Water Meters	547,923	-	-	547,923
Office Equipment	19,772	-	-	19,772
Transportation Equipment	107,202	-	-	107,202
Software	12,883	-	-	12,883
Total Capital Assets Being Depreciated	2,378,720	50,202	-	2,428,922
Less Accumulated Depreciation for				
Building	(20,060)	-	-	(20,060)
Machinery and Equipment	(911,357)	(42,100)	-	(953,457)
Water Meters	(58,498)	(44,863)	-	(101,161)
Office Equipment	(18,772)	-	-	(18,772)
Transportation Equipment	(82,000)	(9,547)	-	(91,547)
Software	(6,574)	(1,850)	-	(8,424)
Total Accumulated Depreciation	(1,097,161)	(97,960)	-	(1,195,121)
Total Capital Assets Being Depreciated, Net	1,281,559	(47,758)	-	1,233,801
Capital Assets, Net	\$ 1,292,120	\$ (47,758)	\$ -	\$ 1,244,362

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 7. Net Assets

Net assets for the years ended December 31, 2011 and 2010, consisted of the following

	2011	2010
Invested in Capital Assets, Net of Related Debt	\$ 224,385	\$ 298,613
Restricted		
Restricted for Revenue Bonds	46,475	41,785
Restricted for Public Improvement Bonds	59,393	24,941
Restricted for Water System Extensions and Improvements	37,989	82,251
Unrestricted	528,823	275,834
Total	\$ 897,065	\$ 723,424

Note 8. Commitments

The District entered into a ten-year lease for office space commencing on January 1, 2002, with monthly payments of \$966. Rental expense totaled \$11,592 for each of the years ended December 31, 2011 and 2010. The following are the scheduled future minimum rental payments under the lease:

2012	\$ 11,592
Total	\$ 11,592

Note 9. Water Rates

Effective January 1, 2010, the District charged the following water rates to each of its customers based on volume:

Residential	
First 2,000 gallons	\$ 15.00
Over 2,000 gallons	\$ 2.80 per 1,000 gallons
Commercial	
First 2,000 gallons	\$ 25.00
Over 2,000 gallons	\$ 3.10 per 1,000 gallons

At December 31, 2011, the District served 1,814 customers.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA**

Notes to Financial Statements

Note 10. Board Members' Per Diem Payments

The following is a schedule of fees paid to board members during the years ended December 31st

	2011	2010
Pierre Fabre, Commissioner 73460 Military Road Covington, LA 70435	\$ 1,320	\$ 1,200
Wayne Jacobs, Commissioner 20120 Highway 36 Covington, LA 70433	4,800	4,530
Kathy Nastasi, Commissioner #4 Pipe Loop Covington, LA 70435	1,200	1,140
Glynn Huhn 73482 Military Road Covington, LA 70435	1,080	780
Michael Stubbs 20470 Alexandria Street Covington, LA 70435	1,200	960
Total	\$ 9,600	\$ 8,610



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
St. Tammany Parish Water District No. 2
Covington, Louisiana

We have audited the financial statements of St. Tammany Parish Water District No. 2 (the District) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Tammany Parish Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

April 13, 2012